STATE OF THE STATE 2008 JANUARY 8, 2008 PIERRE, SOUTH DAKOTA GOVERNOR M. MICHAEL ROUNDS

Thank you very much. Lieutenant Governor Daugaard, Mr. Speaker, members of the State Senate and the State House of Representatives, my fellow public servants, and the people of South Dakota, welcome to the 2008 legislative session.

I want to begin by thanking the people of South Dakota for putting their trust in us.

I welcome the cooperation, the collaboration, and the consensus building that happens every year during our South Dakota legislative session. It is in stark contrast to what too often happens in our nation's capitol.

In South Dakota, the state of our state is good, and we are creating an even better future, but we need to be cautious with our finances. And, as we grow, we need to maintain and improve the high quality of life we already enjoy and appreciate.

With tourism, financial services, health care, and manufacturing all growing in the last 25 years, we have a more diverse state economy, but agriculture still has a very large impact.

Farmers didn't spend a lot last year, because they didn't have the money. There was the drought that impacted literally two-thirds of our state. Their incomes are better now because the harvest is in, and it was a good harvest. But the first thing they are doing is paying off their operational debts from the previous year. I hope they were able to start spending in December and continue to do so, because my budget proposal assumes that they will.

So, if those sales tax numbers come in as high as anticipated while you're still in session, please remember that's already in my budget proposal. It won't be a green light to spend more money. We cannot commit to expensive new programs or huge increases in existing programs, because we don't have the money to do so. We must live within our means.

Some people have the idea that the governor or your interim appropriations committee can spend more money, if we collect more taxes than anticipated, when you are not in session. And, that's not true. We can spend only what you decide is appropriate and only that which you appropriate, while you are in session or in a special session. If higher revenues come in, they cannot be spent until the next legislature decides how that additional money should be spent.

Please, don't over-estimate our income, if you want to spend more money. If you decide you want to spend more, please make sure we have the money available to do so or be willing to identify ongoing sources of revenue or new revenues. So, if you want to start new programs or add to the budget, you need to supply the ongoing funding source without inflating revenue projections.

For the current budget year, we are taking \$28.2 million out of reserves to balance this year's budget. For next year, I'm asking for only \$4.6 million from the budget reserve. I didn't ask for more, because if you approve my proposal, our general fund reserves will be down to a total of \$99 million, which is 8.2 percent of the Fiscal Year 2009 general fund budget. In contrast, for example, the total amount of general fund reserves that local school districts have on hand is 23 percent.

No matter how loud or frequent the lobbying becomes from those tax spenders—they're going to be here every day talking to you—we must always remember that we also represent the much larger group of South Dakotans who are the very quiet taxpayers. I hope you will agree with my budget proposal and make the tough decisions to not spend more money unless you identify an ongoing source of revenue to fund any additional spending.

Some people have been saying that the 2008 legislature should take large amounts of money out of the Dakota Cement Trust Fund, the Health Care Trust Fund, and the Education Enhancement Trust Fund and give all of that to local schools. The voters of South Dakota spoke clearly in a special election on April 10, 2001, that three large windfall amounts of money must be put into those three trust accounts so that the interest could be used to help the current generation and all of the future generations of South Dakotans forever. By votes of 78 percent and 72 percent, they created the three trust funds and made it very difficult to reduce the principle in each of those trust funds. Both of these vote percentages are higher than any vote percentage ever received by any governor in the history of South Dakota. So, the people have spoken very clearly on this. The trust funds are more popular than any governor in our history.

Some people have also said, "We only want to take more interest out and leave the principal alone." That sounds okay, but it really isn't. The peoples' vote in 2001 also placed limits on how much interest could be taken, because they wanted some of the interest to stay in the trust funds to grow the trust funds for higher distributions and increased purchasing power in future years.

With the Dakota Cement Trust Fund, we already take the maximum amount of interest out as allowed by Article XIII, Section 21, but we aren't taking all of it. With the Health Care and Education Enhancement Trust Funds, the Constitution states that, "The calculation of the distribution...may promote growth of the fund and a steadily growing distribution amount." You can't have a steadily growing distribution amount by taking all the interest every year.

Unfortunately, we have an example of where all the interest was taken every year for decades. It is the School and Public Lands Trust Fund. Since statehood until the year 2000, all the interest was taken every year out of the fund and given to schools. That meant that the fund didn't build up any increased distribution for schools or purchasing power for the schools.

In the year 2000, the voters corrected that problem by passing Amendment E. Under Amendment E, only interest and income earned in excess of the inflation rate is now allowed to be disbursed to the school districts. The amount, up to the inflation rate, is kept in the fund so the fund can grow and provide similar benefits in the future for schools. Just think of how much money the schools would have each year now if that had been corrected a hundred years ago instead of just a few years ago. In three votes since the year 2000, the people have spoken very clearly at the ballot box on these trust funds. They put limits on taking the principal and limits on taking all the interest. Again, we should not overrule them.

Now, some economists are suggesting at the national level, that we may be heading toward a recession, but I'm here today to tell you, that I'm optimistic about South Dakota today and in the future, and I hope you will be too.

We are always in several of the top rankings for business, such as business climate, entrepreneurial friendliness, and consumer credit scores. But, equally as important are the high rankings we have concerning the quality of life measurements, such as the top ratings as one of the most livable states, and the Camelot Index, which measures quality of life factors such as education, health, crime rates, and prudent state government management.

So, it's great for all of us individually and for our businesses, that we have the lowest per capita state taxes in the nation. And, your actions last year will be holding down local property taxes this year as well. The benefits of the \$9 million Property Tax Relief bill you passed last year will be received by taxpayers this year. This \$9 million will be a reduction this year and every year from now on for property taxpayers based upon what they would otherwise have had to pay.

But, in addition to the low taxes and the excellent business rankings, I think it is just as great that South Dakota is one of only 11 states in the union to already meet or exceed all the applicable federal air quality standards within this country's borders.

In our state, quality of life can mean a lot of different things. For many South Dakotans and thousands of visitors, they look at the pheasant count every single year. We had a record number of pheasants this year, and we were able to offer our hunters a record-breaking 1,160,000 acres of walk-in public access hunting.

Our combination of great business climate, low taxes, and high quality of life is creating excellent results.

During the last 5 years, the total number of jobs in South Dakota increased by over 27,000. Our unemployment rate is also the second lowest in the nation at 2.8 percent.

For the year just completed, our capital investment numbers in manufacturing alone—the dollars invested in manufacturing in our state alone—are the highest in our state's history by a huge margin. Five hundred and thirty seven new and expanding businesses invested over \$736 million in construction and equipment in South Dakota. That is a huge increase of \$329 million more than last year's record-breaking \$407 million in investment.

I'm also very optimistic and looking forward to the new opportunities that we find within the issue of energy in South Dakota. I have to tell you, it is very true that, in our nation and in South Dakota, gasoline prices are too high, supply isn't as stable as it should be, we are too dependent on Middle East and Venezuelan oil. We need to make sure we have enough electricity for our nation's needs, and we need to do a better job of conserving our energy today. Here, in South Dakota, we are doing something about these challenges.

For energy conservation and efficiency, I want state government to lead by example. Here are some of the things we have done, are doing, and will be doing. A few years ago, we installed what is called a "friction-less" air conditioning system in the State Capitol and air conditioning costs have been cut in half. In all new constructions and renovations, we install digital temperature control systems that are providing 10 to 15 percent in energy savings. During this year, we are changing our cleaning schedules. Most custodial work will now be done during the day so that we won't need so many lights on at night in state office buildings. It saves energy, and it's better for the families of our custodial staff. We are changing light bulbs. When incandescent lights go out, they are being replaced with compact fluorescent bulbs. After this month, incandescent bulbs won't even be available on the state contract. From now on, whenever we bid for appliances used in state government. Energy Star® requirements will be in the specs. Appliances with the Energy Star® label are typically 10 to 20 percent more energy efficient than appliances without the Energy Star® label. To boost our use of non-petroleum products, we will be introducing a bill that would allow a 5 percent preference for purchasing biobased products in the executive branch of state government. We are also doing energy audits of executive branch buildings to reduce future energy costs. Three projects are already underway—the decentralization of the steam plant at the Human Services Center, the conversion of the fossil fuel boilers at the Star Academy, and the changeover to biomass boiler systems at the State Veteran's Home. Here in Pierre, two steam boilers that heat over 500,000 square feet of government space will be replaced with smaller, more efficient gas-fired boilers. Fuel and operational savings will be more than 30 percent.

To allow more state agencies, cities, counties, and school districts to realize the same savings for their taxpayers, I'm proposing the Energy Conservation Revolving Loan Fund that I mentioned in the budget message. These are not grants. These will be low interest loans. It will be a revolving loan fund so that as soon as the money comes

back, it can be loaned out again and again to schools, cities, counties, universities, tech schools, and state agencies that have developed good ways to save tax dollars by becoming more energy efficient. Preference will be given to energy efficiency improvement projects with the shortest payback period.

Some people have already said they would rather spend the \$10 million in other areas. We need to remember that this \$10 million is an investment. These dollars will be loaned out over and over again, and each time that happens, governments will be reducing energy costs and preventing the need for higher taxes. Some people think that's a bad idea. I think reducing costs and holding down taxes are good ideas. If the legislature doesn't approve this program, the money should stay in the reserves, because future legislatures will need it to pay higher energy bills.

We will also be submitting a bill that will require all future state buildings and major renovations to be built to meet LEED Silver rating standards—that's LEED. To achieve LEED Silver ratings for our new buildings and renovations, we will be rated in areas such as site development, water savings, materials selection, indoor environmental quality, and energy efficiency. This is a very good way for state government to lead by example.

We will also become more energy efficient and save money by purchasing more E-85 vehicles for our fleet. Currently, we have 809 E-85 vehicles in the state's fleet and another 108 on order.

The Public Utilities Commission (PUC) has also launched an excellent program to help people become more energy efficient. It's called South Dakota Energy Smart. Last November, all the major electricity and natural gas providers in South Dakota joined in this partnership with the PUC and pledged their support for creating and promoting energy efficiency programs.

In government, in our businesses, and in our homes, we can become more energy efficient and we can save money at the same time.

But, in addition to all of that, on the larger scale, our state and our nation need to stabilize and hopefully decrease the price of gasoline and other transportation fuels, and we also need to stabilize supplies of those transportation fuels for our farmers, ranchers, businesses, ourselves, and for the tourists who want to visit our state. That means becoming much more energy independent from the Middle East and Venezuelan oil supplies.

We do not want to see a future that includes higher transportation and home-heating fuel prices. Our families in South Dakota have better things to spend their money on than higher and higher energy charges.

To begin with, for energy independence, we need to produce more fuels and more electricity from renewable sources. South Dakota is already a leader in ethanol

production. We have tripled our ethanol production since 2002, and we aren't stopping there. We are first in the nation in farmer-owned plants and fourth in total ethanol production. Our Department of Water and Natural Resources has already issued permits for 1.3 billion gallons of ethanol production capacity in South Dakota. In 2007, our plants produced more than 625 million gallons of ethanol. While at the same time in that same year, the citizens of this state only purchased around 420 million gallons of gasoline. Ladies and gentlemen, that means that we produced more ethanol than what we used in gasoline. We are on our way to not only becoming energy independent for all those types of vehicles, but we have enough ethanol to export to other states. We've come a long way from 165 million gallons being produced just 6 years ago.

The new federal energy bill is clearly challenging us to do even more with a national goal of increasing ethanol production from 7 billion gallons to 36 billion gallons by 2022 coming from both corn and cellulosic ethanol sources, and I think that's great!

We have substantial market opportunities ahead of us. We have to take advantage of them. That means more E10, and more E85, and that means more of everything in between.

To accelerate the development of more biodiesel, I will be submitting a bill to provide a 2-cent tax reduction for biodiesel-blended fuel. The advantages of biodiesel are less engine maintenance, fewer emissions, no loss in fuel economy, and it opens up another market for our soybean farmers.

We're also boosting wind power production in South Dakota. We've changed the way that we tax wind production facilities in 2003 to provide development incentives. We now have 44 megawatts of wind power production and 141 megawatts of production capacity under construction, but much more is on the drawing boards.

We also have another wind power-related manufacturing plant coming to South Dakota, and that's the Molded Fiber Glass Company in Aberdeen. They're creating 750 jobs and their plant will be building wind turbine blades for the General Electric 1.5 megawatt wind turbines, which are some of the most widely used wind turbine blades in the world.

The biggest challenge in expanding wind power is obtaining the transmission capacity to send that new electricity from wind farms to customers who are often in other states. We're talking, in many cases, a million dollars a mile for the construction of these lines. That's why building extra capacity into existing transmission line projects is so important.

So, here in South Dakota, we are doing a good job of moving forward to create more fuels and more electricity from renewable sources. But, huge supplies of renewable fuels for South Dakota and nationwide use will not happen overnight, nor will they be able to totally replace petroleum. Therefore, for our own security, stable prices, and adequate supply, the United States must start using more Canadian crude oil.

TransCanada is proposing a pipeline from Hardisty, Alberta, through North Dakota and South Dakota, down to Oklahoma, and then east to Illinois, that will carry 590,000 barrels of tar sands crude oil per day to American refineries. That's 590,000 barrels per day that we won't need to get from the Middle East and Venezuela.

We also need to increase our capacity to refine petroleum for stable prices and adequate supply. To try to prevent supply shortages, I have been issuing executive orders allowing fuel haulers to operate beyond their normal legal operating hours to deliver gasoline and diesel fuel from out-of-state terminals to stations in eastern South Dakota.

Even with these efforts, last fall, during our harvest, there was a time when most of the fuel pipelines supplying South Dakota and North Dakota were dry. Only one out of seven fuel terminals in South Dakota had fuel, and numerous gas stations were completely out of gasoline and diesel for more than 12 hours.

Ladies and gentlemen, this shortage was not caused by a natural disaster or cold weather. It was caused by a nationwide lack of refining capacity. And, it doesn't help us that we are at the end of most fuel distribution systems. We are going to have more and more supply shortages until we increase our refining capacity.

Fortunately, South Dakota is a finalist for the Hyperion Energy Center. It will be the first new oil refinery built in the United States since 1976. The company is committed to this being the most technologically and environmentally advanced oil refinery in the world, and we will hold them to their promise.

In South Dakota, we roll out the red carpet, not the red tape, to any new potential business, but ladies and gentlemen, we do not cut corners. I believe this new refinery would help stabilize gasoline supplies in the Midwest, and that will be great for our farmers, our businesses, and all of us.

We also need to make sure we have enough electricity for our own needs now and in the future. This is the headline that I'd like to give you that was just in an Idaho newspaper 4 weeks ago. The headline said, "Two manufacturers skip Boise after utility says it can't provide electricity." I don't want that to ever happen in South Dakota.

To provide more electricity to meet both South Dakota and upper Midwest needs, the Big Stone II power plant is scheduled to begin construction in South Dakota in early 2009. This new 500- to 630-megawatt coal-fired plant would be built next to an older plant. The emissions of sulfur dioxide, nitrogen oxides, and mercury from the two plants will actually be less than, or equal to, historical emissions from the existing single plant. With advanced equipment for both plants, mercury emissions from both plants will be equal to the emission from the one plant in 2004.

Big Stone II will produce 20 percent less CO2 per megawatt hour than existing regional coal-fired plants. The plant is also designed to produce fly ash for use in making

concrete and that could cause an additional reduction of 100,000 tons of CO2 per year in the cement manufacturing process.

The Big Stone II partners also want to include an extra 1,000 megawatts of capacity on their upgraded transmission lines that could be used for wind power transmission.

The Basin Electric Power Cooperative is also developing a 500- to 700-megawatt coalfired power plant to help meet the increased demand for power in South Dakota and the upper Midwest.

I am also very supportive of the expansion plans of the Dakota, Minnesota and Eastern Railroad (DM&E) so that existing and future coal plants can get the coal needed for more electrical production. The recently announced merger of the DM&E with the Canadian Pacific Railway could bring the infusion of capital needed to create an improved rail line. Improvements in the DM&E will also help us transport more ethanol to more places.

Wherever and whenever we can, we must reduce the price of renewables to make them more competitive instead of making our current energy sources more expensive. Some people want to mandate higher costs for traditional fuels and electrical production so that renewables become more attractive. However, I believe we must work hard to reduce the cost of producing both traditional and renewable fuels, as well as electricity, because our citizens can't afford the higher prices in the future.

Increasingly, over the next 10 years, some of the average American's biggest daily problems will be the cost and reliable supply of both transportation fuels and electricity. I'm proud, and I hope you are, too, that South Dakota is already becoming a leader in decreasing these problems for our own citizens and our nation by increasing renewable fuels and being a host for several major energy projects.

I'm also optimistic about the economic advances we have made in the past year and will make this year. One of the goals of the 2010 Initiative was to double visitor spending from \$600 million to \$1.2 billion by the year 2010. All indications are that we had an excellent year for visitor spending. We are still compiling the numbers, and they will be announced, as has become our tradition, at the Tourism Conference next week. We are on course to meet and exceed all our goals.

Another 2010 goal is to increase the Gross State Product by \$10 billion by the year 2010. Figures for 2007 won't be available until later this year, but through 2006, we have already gone from \$23.9 billion to \$32.3 billion. That's an \$8.4 billion increase so far. We are on course to meet and exceed our goal.

Twenty-two companies were approved for REDI loans this past year. They are creating 856 jobs, and all those companies are providing health insurance. Currently, the average wage of all companies with REDI loans is over \$15 an hour.

Last year was the 20th anniversary of the beginning of the REDI loan fund. Some of you were here.

Governor George Mickelson and the 1987 legislature created a temporary tax to raise \$40 million. Their goal was to create 13,000 jobs. In the past 20 years, the REDI loans have created 30,000 jobs. The goal was to leverage \$200 million in new capital investment, and \$600 million has already been achieved. I wish George was here today so we could thank him for those great achievements.

More recently, many of you here today were in previous legislatures that created the 2010 research centers and they are also doing very well. They have achieved over \$29 million in external research funding, and our 2010 Research Center business partners have raised nearly \$10 million in private equity financing.

And, ladies and gentlemen, 2007 was a fantastic year for our underground science and engineering lab project. In July, the National Science Foundation selected our Homestake site as the site for the Deep Underground Science and Engineering Lab (DUSEL). With that selection came a \$15 million grant to the Lawrence Berkeley National Lab and the South Dakota School of Mines and Technology to develop the final plans for the deep lab at the 7,400-foot level at Homestake. Many of you were legislators in October 2005 and you voted to take the bold step forward of appropriating millions of dollars to build the interim lab at the 4,850-foot level to show the National Science Foundation and world's scientists that South Dakota was committed to scientific research. Thank you for those votes. Because of you, this great dream—this great opportunity—is starting to come true.

A lot has been happening and will be happening at the Sanford Underground Science and Engineering Lab at the 4,850-foot level. A lab director has been hired, Dr. Jose Alonso. The pumps are being installed. The Ross shaft is being refurbished, and in April of this year, over 200 scientists will be coming to South Dakota for a special weeklong conference on underground science and to discuss experiments they want to do here at both levels in our laboratories.

I want to also publicly thank Denny Sanford. Denny saw what you, the legislature, did. He asked about what we were doing at Homestake, and then he gave \$70 million to accelerate and improve the project. He has also made many other contributions to improve the quality of life in South Dakota and to create a better future for all of us and future generations: \$400 million to health care, the \$70 million to underground science, the recent \$5 million donation to the Crazy Horse Memorial, and many more millions to the Children's Home Society, The University of South Dakota, South Dakota State University, and many other places that we don't know about. A recent *Rapid City Journal* editorial said it perfectly when it concluded, "...all the rest of the world would be a much better place in 2008 if ultra-wealthy people thought like Denny Sanford does." On behalf of the state, I would like to say thank you very much, Denny Sanford, for all that you are doing for South Dakota's citizens. Thank you very, very much. I appreciate it.

Also in 2007, you passed many new, excellent laws. For example, you authorized Attorney General Larry Long's 24/7 Sobriety Program to go statewide and appropriated \$345,000 to do so. Instead of going to jail, DUI and other offenders are allowed to check in twice each day at the sheriff's office or police station for a breath test. 3,174 people have graduated from the program, 2,801 are currently being tested every day, over 800,000 tests have been given, and the pass rate is 99.3 percent. This is clearly helping a high percentage of these people to stay sober, so that they can hold a job, support their families, and not be drunk drivers on the highways, endangering others. It is also preventing child abuse and other crimes that people would commit when drunk.

This is an excellent example of how state agencies, counties, cities, the courts, and elected and appointed leaders at all levels can work together, side-by-side, to do something that is really excellent for the people of South Dakota.

You also approved substantial upgrades for Custer State Park, and this will improve the quality of life for millions of people who visit the park in future years.

Throughout the spring and summer, many of you joined me at our Capitals for a Day and education town hall meetings that we did to bring state government to the people in their home communities. At several of those Capitals for a Day, the Bear Butte problem was discussed and I hope you agree with a \$250,000 appropriation to match \$343,000 in private funds and \$593,000 in federal funds to preserve and protect the beauty and significance of Bear Butte. We are working with the landowners, and this bill will give us the resources to help those landowners keep the land in agricultural production and in its natural state. They stay on the tax rolls, in private ownership, but they will remain as ag property rather than being developed.

I'm also optimistic about what's happening in education in South Dakota. Over the past several years, you have appropriated funding for 3,465 Opportunity Scholarships. This year, I will be proposing legislation to expand those scholarships to even more South Dakota students. The bill will lower the ACT requirement from 24 to 23 to allow more than 200 more students to qualify. In recent years, we have also been able to provide 162 Dakota Corps scholarships and 39 Hagen-Harvey scholarships.

I am partnering with the Board of Regents to renovate and to revitalize the science facilities at our public universities, because it is truly important for the future of South Dakota's students and our economic development plans. The private sector already recognizes this important move. Avera recently announced a multi-million dollar donation to South Dakota State University to rebuild and expand Shepard Hall. Therefore, the Board of Regents and I have agreed to a \$65 million bonding plan.

Last year, you also passed and funded the Teacher Compensation Act to help increase teacher salaries. During this year, 53 of our 165 school districts are using that money for market compensation—to get teachers they need for their schools. Next year,

73 districts will use the Teachers Compensation Assistance Program (TCAP) money for market compensation. Some of the TCAP money is also being used to pay teachers for additional training. I'm proposing \$4,000,000 again in state funds this year to directly help our teachers.

But, South Dakota is also participating in the federal INCENTIVESplus program. This is a \$20 million grant over 5 years to attract teachers to high-need schools, primarily in rural areas within our state. So, we'll have a combination of both of these programs available for salary enhancement at the local level.

I'm also asking for \$2,954,000 for year 3 of the Classroom Connections Program. That's for classroom laptops for children. That will be 4,600 more laptop computers for high school students and 400 more for their teachers. Laptops close the digital divide. They level the playing field so that the students who can't afford a computer at home can now have the same opportunities to learn like all the other students. Teachers have reported that students are more motivated in their studies, spend more time doing their homework, and have access to more information than ever before. Teachers also say they are seeing an increase in the amount of communication between teachers, parents, and students. Students are also writing more, researching more on their own, and learning more on their own. They are learning knowledge and skills, but they are also learning how to learn. And, as you know, when that happens, many barriers and roadblocks to success are wiped out, and the door to lifelong learning and achievement becomes wide open.

This year, 41 school districts are in the Classroom Connections Program. 9,600 students have laptops or tablet computers. That's 25 percent of the high school students in South Dakota. With your approval, 14,200 students will have computers next year, and that would raise the percentage to 38 percent of our high school students.

Also, as a part of the bigger picture in South Dakota, I have recommended in my budget proposal funding to migrate our six public universities toward a mobile computing environment. The students that graduate from our high schools and attend one of our public universities will use laptops and tablet computers in their courses of study. It is, therefore, imperative that we start these students on a path toward using computers for learning in our public schools and that our universities be prepared to accept them.

Ladies and gentlemen, since my budget message in December, there have been some, what I consider, inaccuracies in the public discussion about education funding. I'd like to go through some of the facts with you.

Someone said I was cutting school funding. I'm asking for a 2.5 percent increase in per student allocation for state aid to local schools, which is a full 1 percent higher than the anticipated inflation rate as provided by law for the next school year. That is not a cut. For my five budgets and my current proposal, per student funding is increasing higher

than inflation in ongoing money from \$3,889 on a per student basis to \$4,642 per student. That is not a cut.

The small school adjustment is also paying 123 of the 165 school districts as much as 847 more dollars per student. We are also giving local schools extra money if they have declining enrollments and extra money if they have increasing enrollments. That is not a cut.

Another educator challenged me to have reserves in state government at the same level expected for schools. State law says school general fund reserves should not exceed 25 percent. In my proposed budget, if you accept it as it is, the state general fund reserves will be at only 8.2 percent, and that's 16 percent lower than what the school districts are currently allowed.

Please remember that in my first four budget years, the legislature appropriated \$43 million in ongoing state aid general fund increases. In those same 4 years, reports from the school districts, after those four school years ended, show that the school districts put \$46 million into their general fund reserves.

Another educator said that total general fund reserves for all schools are under 25 percent, and that's partially true. Total general fund reserves for all schools is over \$170 million, which is 23 percent, but 96 school districts are carrying more than 25 percent in reserves and 51 of them have more than 40 percent in reserves—and that does not include an additional \$81 million in their capital outlay reserves.

I think there's an impression that I'm angry with local school boards or administrators. I'm not. But I have to express my disappointment, because the legislative body makes decisions about where to send a limited number of tax dollars every single year, and you decide whether you want the money to go back for enhancement of education, you decide whether or not you want the money to go into taking care of people who are in nursing homes, you decide whether or not you want to put the money into the State's Children's Health Insurance Plan (SCHIP), a whole multitude of very good programs, and each year you are challenged to make the best judgment calls that you can. I think the intention when the legislature passes those types of increases, is that the dollars would be utilized instead of going into the cash reserves. And, so please understand that my discussion about this issue is one perhaps of disappointment and frustration—not anger with people that are trying to do the best within a system in which they work. And I look forward to the opportunity to discuss with you, what we can do, and what perhaps in the future we can do in terms of enhancing how we spend the dollars that we entrust to good people at the local level involving K-12 education.

I'm still optimistic about education in South Dakota, and a lot of it is because of what our students are doing in showing achievement. Let me share some of the results with you.

In the Dakota Step Test for math, 59 percent of our students were proficient or advanced in 2003. In 2007, that number has increased from 59 percent to 75 percent.

In the Dakota Step Test for reading, 71 percent of our students were proficient or advanced in 2003. In 2007, that number has increased from 71 percent to 83 percent.

In comparison to other states, they are also doing very well. The National Assessment of Educational Progress shows that in both reading and math for the fourth grade and eighth grade, our students are ahead of the national average.

For our older students, well, they are also ahead of the national averages for ACT scores for the last 6 years. From 2001 through 2007, ACT scores have risen statewide from 21.5 to 21.9. The national average is 21.2. Even though these are good scores, we can always do better, especially with our high school students.

I am grateful for all of our hard working teachers who help our students to achieve, and I wish, and I'm hopeful that, in the future at the local level we would use the additional ongoing funds that you are providing, to provide for salary policy enhancements and to improve education.

I'm also optimistic about health care, and I want to talk a little bit about the challenge that we face in terms of our nation and our state with regard to the costs and quality of health care. South Dakota is the first state in the nation to offer free flu vaccines to our children. Over 75,000 doses have been given, and that is substantially higher than the 19,000 given the previous year. Also, nearly 40 percent of the 44,000 South Dakota girls, age 11 to 18, have voluntarily received at least one dose of the human papilloma virus vaccine to help prevent cervical cancer. That's our first year.

With House Bill 1169, you created the Zaniya Project. Its purpose was to develop a plan to provide health insurance to South Dakota residents who lack health insurance coverage and to propose efficiencies in the purchase of health insurance products. I want to thank everyone who contributed to the work groups and created the report's recommendations. As a result of the report, I will introduce a bill to help people secure a continuation of their health insurance when they leave a job or are no longer a covered dependent. I have also looked seriously at expanding the State's Children's Health Insurance Program (SCHIP) for kids from the 200 percent level to the 250 percent level. But, I've got a concern, because in order to do that, we have to have adequate federal funding, and Congress has not reauthorized the SCHIP yet, and the appropriation levels are still on hold, so we don't have the federal resources in which to move from 200 to 250 percent at this time.

I also have a team of people studying the ways that we can cover more of the uninsurables, which is one of our most difficult groups.

I will also be introducing a bill to establish a statewide trauma system. Right now, South Dakota is one of only six states that does not have a comprehensive statewide trauma system. By creating one, we expedite getting a severely injured person to the right facility faster. In South Dakota, that means we could save 80 lives every year. This bill

gets the process started to create a statewide trauma system and is supported by our health care systems.

During the 2006 legislative session, the legislature passed House Bill 1156 that authorized our Department of Social Services to have a study conducted of the continuum of care needs of our elderly citizens in South Dakota. This report is the first of its kind within our state and gives us all an opportunity to work together to develop a more affordable system of care for our seniors.

I have asked Secretary Bowman to form three working committees that, over the course of the next 12 months, will develop action plans for the policy recommendations that are found within the report. The committees will include providers, concerned citizens, and, hopefully, any of you that are interested in being actively involved, and I would invite your participation.

Also, last year, you passed Senate Bill 186 to promote the purchase of private long-term care insurance by individuals and reduce their dependence on the Medicaid program to fund their long-term care needs. So far, ten companies are offering 13 approved partnership policies so people can plan for their own long-term care needs.

Last year, you also funded an intensive methamphetamine treatment for addicts sent to the women's prison. Eighty-five women have completed, or are completing, the program. We are beginning to see progress in all of the other things we are doing to combat meth addiction here within our state.

Women entering prison with meth addictions has decreased from 47 percent to 42 percent. Men entering prison with meth addictions have decreased from 32 percent to 24 percent. There appear to be several reasons for this. Previous legislatures passed laws to restrict the sale of pseudoephedrine and amended our child/abuse and neglect statutes. We've had great cooperation with farmers, ranchers, and agribusinesses in the tank lock program. Our retailers have involved themselves in the Meth Alert Program. We have taken the Meth Makes You Ugly campaign statewide. Anti-meth materials have been sent to all middle schools and high schools. I have personally gone to 16 schools and spoken to over 9,400 students about meth addiction. And, we've developed meth-specific treatment protocols to improve treatment.

Ladies and gentlemen, I am also very optimistic about agriculture within our state. Our inventory of hogs and pigs is higher than last year. Feedlots have more cattle. Crop and livestock prices are higher than a year ago, with the exception of hogs. We have 119 licensed cattle producers in the SOUTH DAKOTA CERTIFIED™ Beef program, nearly 9,000 enrolled cattle, 32 retail outlets, and 15 licensed processors for that program.

In addition to the Aberdeen beef processing plant, which is being constructed now, we have had locker plant expansions and greater interest in additional packing house ventures across the state.

Unfortunately, we also have a problem that affects not only our farmers and ranchers, but everyone else who pays property taxes. During 2007, nearly \$848 million in property taxes were billed and paid by South Dakota property owners based upon the value of their property. The vast majority of this tax is used to fund local K-12 education. Unfortunately, the valuation system for determining those taxes has been distorted by laws which mandate that our Directors of Equalization ignore certain sales information when they are assessing property, especially agricultural property. It's called the 150 percent rule, but it's really a law. This distorted treatment of property valuations does not impact all property owners equally. Some owners are assessed at the market value of their property. Others are paying taxes on less than half of the true value of their property based upon the current assessment determinations.

Statewide, more than \$14.1 billion of property value is not taxed because of the laws now in place—that's nearly a quarter of our state's property value of \$51 billion. In 1998, we had over 1,400 usable agricultural sales in the state that could be used in assessing agricultural properties. In 2006, we had just 200 for the entire state. It is not possible to fairly and accurately value all of the agricultural land in the state using just 200 sales. We are rapidly approaching the point where the current system is no longer workable. We've had several study committees and many bills introduced over the last several years. I pledge my support in working with you, but the time has come, we need to work together and fix this problem during this legislative session.

I'm optimistic that we can meet our future transportation needs. The current federal funding program, called SAFETEA-LU, provided much needed federal dollars to assist South Dakota in keeping its roads in very good shape. However, significant increases in the cost of products to fix roads, such as asphalt and petroleum-based products coupled with flat gas tax receipts caused by high gas prices, resulted in difficulties in stretching the state highway fund dollars. These two factors have caused the balance in the state Highway Trust Fund to decline by nearly \$80 million in the last 3 years. I am currently taking aggressive steps to maximize the amount of highway fund dollars going back to fix and build roads, yet continue to protect our citizens as they travel on our roads throughout the state.

In addition, the federal Highway Trust Fund is scheduled to run out of money before the next reauthorization in 2009. Our state Department of Transportation folks and I have been taking steps now to ensure that South Dakota continues to maximize the dollars we receive from Washington under the current program. We will also work hard to ensure that rural states like South Dakota are well represented when Congress begins drafting a new highway funding program.

As construction costs skyrocketed in the last 2 years, we have utilized every resource we could find in continuing our highway projects. Instead of canceling contracts, we honored all of them and kept the work going. Unfortunately, we have had to revise our future schedules.

I've also directed Secretary Bergquist to reduce expenditures in order to maximize the amount we can use for our highways. For example, we are delaying the purchase of equipment, new construction, and renovations at our own facilities to save \$5.25 million in the current fiscal year. We will do the same next year.

Also for next year, we will delay non-critical projects and revise our plans with the Department of Game, Fish and Parks and with the counties. These are changes as we go forward; not cancellation of any past promises.

I also directed the Highway Patrol to reduce its expenses by \$2 million for next year. Everything I've mentioned for the Fiscal Year 2009 budget will save \$16.65 million in highway funds so that money can be used to fix and build our roads. The \$2 million Highway Patrol reduction for next year is \$1.2 million for capital expenditures that can be delayed until another year, that's mostly a delay in purchasing new patrol cars; \$295,000 in vehicle fuel not used; \$242,000 in overtime, which amounts to about 2 percent of their total hours worked; and \$260,000 in other categories, like travel and contractual services. There will be no reduction in the number of patrolmen, and I will work with you as you have questions. I can assure you that we want this to work and we are doing the best we can to make these changes within the proposals as painless as possible for everyone. We welcome your suggestions, and we will not reduce the number of highway patrolmen or take money away from the highway fund. I'm confident the Highway Patrol can get the job done with less overtime.

Last year, we had some disagreements among us on highway funding, specifically in House Bills 1131 and 1174. I vetoed both bills, as many of you will recall. You sustained my veto by one vote on House Bill 1131, for which I thank you, and kept money in the highway fund. You overrode my veto of House Bill 1174 by two votes and depleted the highway fund by \$305,000 by lowering used car excise taxes. I still believe we need the \$305,000 per year in the highway fund every year, and I wish you would repeal the changes you made last year. Twenty-one dollars for a used car purchase is not too much to pay when the money will be used to fix the roads that the car will drive on.

I'm also very grateful, ladies and gentlemen, for the service and the sacrifices that are being made by our servicemen and women and their families. I would like to give you a report, as we begin to finish up, on the activity of the South Dakota National Guard.

Since September 11, 2001, over 3,000 South Dakotans have been deployed overseas. During 2007, 704 members of the South Dakota National Guard were deployed. 350 were in the Air National Guard, and all of them have since returned home. 354 were in the Army National Guard, and 23 have returned home. We currently have 331 Army National Guard serving overseas; 133 are in Afghanistan, 197 are in Iraq, and 1 is in Kuwait. Ladies and gentlemen, 23 have made the ultimate sacrifice. Seven of our National Guard members and 16 who were in the regular armed forces. Two more active duty military and one civilian with strong ties to our state have also died in service to our country since September 11, 2001.

I recently had the opportunity to visit Iraq and Afghanistan in December of last year. In Iraq, I visited out troops in Baghdad and Balad. In Balad, I met with members of Detachment 3, Company A, of the 641st Aviation Battalion. They're based out of Rapid City—they fly the SHERPA aircraft. These are the big boxcar aircraft. They're not very fast, they don't fly very high. They carry about 4,000 pounds of equipment as cargo and our soldiers fly them at night with no lights on them, using night vision goggles,to resupply our troops.

They shared with me that when they first got there, it wasn't unusual at all to have bullet holes in their aircraft when they came back. In the last couple of months, it's gotten better and they feel better about not being shot at on a regular basis. But, I can tell you that they're doing just a great job.

I went from there back to Kuwait and then to Afghanistan. And, in Afghanistan, we were in Kabul and in Bagram, which is just north. There, I had the opportunity to meet with members of 235th Military Police Detachment. They're the ones that protect the convoys, they protect the bases, they guard prisoners, they have some of the toughest jobs in this war effort. They're all truly still in war zones. Wherever we went, we went in full body armor, in armored aircraft with armed escorts. These soldiers live in that atmosphere, and it is truly a war zone.

And yet when I asked them at every location how things were going, they'd tell me that things are getting better, but you know what they really worry about? They worry about their families back here. They're concerned because they want everybody to know that it's not just them over there that's part of the war effort, but it's their families that are living with us back here that should also be recognized.

I've assured them that we pray for them and their families because, you see, when the National Guard goes to war, when America goes to war, all of our families are deeply touched as well.

I can tell you I came away from my experience deeply moved by the ability and the strength and the courage of these men and women. They are truly our future, and as they return, they bring back an integrity and a power for our state that I'm just so proud of because they truly represent the best of all of us.

They're not here right now, but there are people that are here who have served, and I think it's appropriate that each time we gather like this we recognize the sacrifice and the service of those who are still serving—those who are still members of the Armed Forces of the United States and those who have served our country and have worn so proudly the uniform of these United States of America, because remember, we get the privilege and the opportunity to take for granted the freedoms that other people wish they had.

Each and every one of us has the opportunity to participate in government and to determine our own destiny. Each and every one of us had the opportunity to go to school, whether we are a boy or a girl, and to become everything that we can be. Each and every one of us gets the opportunity to choose the job or the profession of our own choice and to succeed in it or fail. And, every one of us has the freedom to worship the good Lord the way that we see fit, whether it be in a church, synagogue, mosque, mountaintop, or cathedral, and those freedoms are not free. They have been defended generation after generation by the men and the women who have so proudly worn the uniform of these United States of America. Ladies and gentlemen, would you please join with me as I ask all of our current members of the Armed Forces and all of those veterans to please stand and be recognized for your sacrifice and your service to all of us at this time. Veterans, please stand and be recognized.

Thank you today for allowing me to share with you what I think is a chance to talk about a very good future for our state, but there's something else that makes me just very optimistic. I touched on it only briefly when we began, but I'd like to talk about it for just a minute now. You see, people in South Dakota are honest, hard-working, get-it-done problem solvers, and from them, you come. They elect you and they trust you to come here to the Capitol of South Dakota for a brief period of time and to solve problems. They believe in results, and the evidence is clear that you do, too. So one of the reasons why I'm so optimistic about this legislative session is that we get to work together—we get to work together to solve the problems and produce results for the people of South Dakota.

We are fortunate that the good Lord has blessed us with the bounty that very few other places in the world have. I think it's always appropriate that we continue to ask for His blessings for ourselves, for those individuals who serve our country overseas, for their families back here, for the state of South Dakota, and for these United States of America. Thank you.